SCENARIO 4
AFFILIATE PURCHASES

PROS

1. Utilizes legacy portfolio and risk management expertise of utility affiliates.
2. Is compatible with various rate designs.
3. Shifts financial risks from customers and the utilities to a supplier / risk manager that has extensive experience managing these risks.
4. Default risk is reduced if the supplier has a strong credit rating.
5. May provide stable rates for applicable customers.
6. Allows for a mechanism for translation of the supplier's price into applicable rate structure.
7. Involves very little ongoing regulatory costs.
8. Allows for incorporation of RPS green power requirements.
9. To the extent this scenario provides for a priori approval of the rates based on the supplier's price, it provides greater certainty of cost recovery to incumbent utilities compared to traditional rate-making principles involving after-the-fact prudence reviews.

CONS

1. Not a transparent process.
2. Not a competitive procurement approach.
3. Resulting price for end use customer not tied to market which likely will result in opportunistic switching.
4. Inconsistent with FERC affiliate transaction rules.
5. Does not foster wholesale competition.
6. Does not facilitate participation by non-affiliated generators.
7. Does not facilitate participation by non-affiliated marketers and other financial intermediaries.
8. Is not a transparent or competitive process.
9. Provides little or no opportunity for stakeholders to review and comment on utilities' procurement plans.

10. Limits the regulatory oversight of the ICC.

11. May engender federal/state regulatory conflict given the different policy objectives and standards of review used by ICC and FERC.

12. Is susceptible to affiliate abuse (e.g., cross subsidization, self-dealing, and predatory pricing) that may be difficult for regulators to detect.

13. Could facilitate the shifting of profits from the regulated entity to its unregulated GENCO affiliate.

14. If market metrics are lacking, would hamper efforts to evaluate the performance and cost-effectiveness of the supply portfolio.

15. Provides a potentially inadequate incentive to procure power efficiently given the lack of competition and limited regulatory review.

16. Would likely fail Edgar review.

17. Does not provide non-affiliated suppliers / risk managers with the opportunity to participate directly as the supplier to the utility.

18. Could involve contentious regulatory proceedings in order to approve supplier's price, associated generation rates, and sole source procurement approach.

19. Inclusion of regulatory risk into supplier's pricing, if supplier's offer is fixed and the regulatory proceedings required for approval require extensive amounts of time.

20. May reduce market liquidity if supplier uses its own generation to serve a large portion of the supply obligation.